

Message Text

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ACTION EB-07

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TREASURY FOR D. SYVRUD AND T. LEDDY

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: OFFICIAL GOLD PURCHASES RECOMMENDED IN JAPANESE EDITORIAL

1. RECENT DECLINE IN WORLD GOLD PRICE OFFERS JAPAN AN EXCELLENT CHANCE TO PURCHASE GOLD IN ORDER TO INCREASE THE GOLD RATIO OF ITS OFFICIAL FOREIGN RESERVES, SAUS LEAD EDITORIAL IN SANKEI SHINBUN, JULY 26. VIEWS EXPRESSED IN EDITORIAL MAKE IT CLEAR THAT JAPANESE PRESS AND PERHAPS PUBLIC HAVE LITTLE IDEA OF WHAT THE NEW MONETARY AGREEMENTS REACHED IN JAMAICA ARE SEEKING TO ACHIEVE.

2. SANKEI DAILY IS FOURTH LARGEST NEWSPAPER IN JAPAN WITH CIRCULATION OF ABOUT 2 MILLION, PRIMARILY IN TOKYO AND LEADING CITIES. SANKEI TENDS TO REFLECT LARGELY DOMESTIC INTERESTS OF JAPANESE BIG BUSINESS. FOR EXAMPLE, SANKEI WAS LAST TO HOLD OUT AGAINST JAPAN'S SIGNING NONPROLIFERATION TREATY BECAUSE IT MIGHT LIMIT PROFITABLE EXPLOITATION OF COMMERCIAL OPPORTUNITIES IN PEACEFUL USES OF ATOMIC ENERGY.

3. FOLLOWING IS VERBATIM TRANSLATION OF SANKEI EDITORIAL
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ON GOLD (A SUBJECT NOT YET TREATED BY OTHER JAPANESE NEWS

MEDIA):

"WE URGE CORRECTION OF FOREIGN CURRENCY RESERVES THROUGH
PURCHASE OF GOLD --

THE PRICE OF GOLD HAS SHOWSN A SHARP DECLINE ON THE GOLD
MARKETS OF THE WORLD RECENTLY. WE ADVISE THE BANKING
OFFICIALS OF OUR COUNTRY TO PURCHASE GOLD AT THE PRESENT,
LOW PRICE AND TO INCREASE THE RATE OF GOLD IN OUR FOREIGN
CURRENCY RESERVES.

THE PRICE OF GOLD ON FREE MARKETS, WHICH SHOWED A FIRM
TREND FROM THE EARLY PART OF THE 1970'S TO THE DAYS FOLLOWING
THE OIL SHOCK, REAKX \$198 PER OUNCE, OR ANOTHER STEP LEFT
BEFORE REACHING THE \$200 LEVEL, TOWARD THE END OF 1974.
SUBSEQUENTLY, HOWEVER, IT SHOWED A COMPLETE CHANGE TO A WEAK
TONE. ESPECIALLY FOR THE PAST MONTH OR TWO, A SHARP
DECLINE HAS BEEN A STRONG TREND. LAST WEEK THE PRICE DECLINED
TO \$105 PER OUNCE OR NEARLY HALF THE HIGHEST PRICE EVER MARKED
BEFORE.

THIS LOW HANGING OF THE GOLD PRICE WAS DIRECTLY OCCASIONED
BY THE AUCTION SALES OF IMF HOLDINGS. THE IMF THIS JANUARY
DECIDED TO SELL ON THE MARKET 20 MIL OUNCES OF GOLD WHICH
ACCOUNTED FOR ONE-SIXTH OF ITS HOLDINGS AND TO USE THE MARGINAL
PROFITS FOR AID TO THE DEVEOPING COUNTRIES. IT
CARRIED OUT AUCTION SALES TWICE ON JUNE 2 AND JULY 14,
AND THE THIRD ROUND IS SCHEDULED FOR SEPTEMBER. THIS
RELEASE OF IM HOLDINGS CAUSED SUPPLY-DEMAND RELATIONS
TO BECOME LOOSE, RESULTING IN A GREATER SLUMP THAN
ANTICIPATED. IT MAY BE SAID TO BE THE ACTUAL SITUATION
THAT A GREATER DECLINE HAS BEEN SHOWN IN THE FORM OF
INVITING PRIVATE CIRCLES' SALES OUT OF DISAPPOINTMENT.

HOWEVER, THE ABOVE-MENTIONED POINTS WERE DIRECT
OCCASIONS, STRICTLY, AND THERE ARE BELIEVED TO BE MORE
BASIC CAUSES BESIDES THEM. THE TIME WHEN THE PRICE OF
GOLD SOARED IN THE PAST WAS MARKED WITH INTERNATIONAL
CURRENCY UNEASINESS, ESPECIALLY THE INSTABILITY OF THE DOLLAR
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WHICH WAS THE KEY CURRENCY. THIS GAVE RISE TO THE PREFERENCE
TO GOLD AS THE SOLE MEASURE OF VALUE IN THE WORLD. AROUND
THE TIME OF THE OIL SHOCK, THERE AROSE WORLDWIDE INFLATION.
QUOTATIONS ON OIL AND OTHER INTERNATIONAL GOODS SOARED,
AND IN ADDITION, THE INTERNATIONAL POLITICAL SITUATION
CENTERING ON THE MIDDLE EAST WAS UNSTABLE. THESE INCURRED
THE ENTHUSIASM FOR SPECULATIVE PURCHASE OF GOLD. AFTER
THAT, HOWEVER, THE GLOBAL INFLATION CAME TO BE CALMED

DOWN SOMEHOW OR OTHER, AND THE DOLLAR IS NOW STABLE AS ONE OF THE STRONGEST CURRENCIES IN THE WORLD. THIS IS BELIEVED TO HAVE LESSENED THE ATTRACTION POWER OF GOLD.

THERE ARE SOME VIEWS THAT THE PRICE OF GOLD MAY POSSIBLY BECOME BELOW THE \$100 LEVEL. THE DECLINE IN THE PRICE OF GOLD WILL DEAL BLOWS TO THE EUROPEAN COUNTRIES WHOSE GOLD RESERVES ARE LARGE IN AMOUNT. SINCE THE IMF INTENDS TO OFFER AID TO THE DEVELOPING COUNTRIES, WITH THE MARGINAL PROFITS THROUGH THE SALES OF GOLD, A SHARP DECLINE IN PRICE AT THE SALES WILL CAUSE A SELF-CONTRADICTION. ON THIS POINT, SOME COUNTRIES WILL SUPPORT PURCHASES, AND WE CANNOT BUT TAKE THE VIEW THAT THERE IS A CERTAIN LIMIT EVEN TO THE DECLINE IN THE PRICE OF GOLD.

OF THE FOREIGN CURRENCY RESERVES OF OUR COUNTRY, WHICH TOTAL ABOUT \$15 BIL, THE RATE OF GOLD IS LESS THAN 6 PERCENT, OR ABOUT \$800 MIL. THIS IS IN SHARP CONTRAST TO THE CASE OF FRANCE, ETC., WHICH HAS NEARLY HALF THE AMOUNT OF ITS FOREIGN CURRENCY RESERVES IN GOLD. SO LONG AS THE DOLLAR IS SAFE, IT IS ALL RIGHT THAT OUR COUNTRY SHOULD STICK CLOSELY TO THE DOLLAR. HOWEVER, THERE IS NO GUARANTEE THAT THIS SITUATION WILL CONTINUE INDEFINITELY. IF INFLATION REVIVES GLOBALLY, STARTING IN THE UNITED STATES, AROUND NEXT YEAR, GOLD MAY POSSIBLY BE CONSIDERED ONCE AGAIN. ALTHOUGH THERE IS A TREND TOWARD ABOLISHING GOLD AS CURRENCY, THIS IS NOT BELIEVED TO PROGRESS AT A STROKE, JUDGING FROM THE ATTITUDES OF THE EUROPEAN COUNTRIES. THE ROLE OF GOLD AS RESERVE ASSETS WILL REMAIN AS IT IS FOR SOME TIME TO COME.

JUDGING FROM THIS, WE THINK IT NECESSARY TO BUY
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GOLD WHEN IT IS CHEAP AND TO CORRECT THE COMPOSITION OF THE FOREIGN CURRENCY RESERVES."
SHOESMITH

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